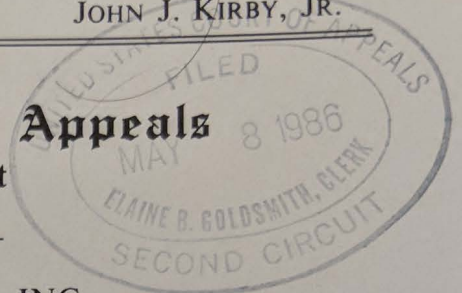


86-7077,7099

To be argued by:
JOHN J. KIRBY, JR.

**United States Court of Appeals
For The Second Circuit**



UNIVERSAL CITY STUDIOS, INC.,

*Plaintiff-Appellant,
Cross-Appellee,*

against

NINTENDO CO., LTD. and NINTENDO
OF AMERICA INC.,

*Defendants-Appellees,
Cross-Appellants.*

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

**REPLY BRIEF OF
NINTENDO CO., LTD. and NINTENDO
OF AMERICA INC.**

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REPLY BRIEF OF
NINTENDO CO., LTD. and
NINTENDO OF AMERICA INC.

PRELIMINARY STATEMENT

This reply brief is respectfully submitted on behalf of Nintendo Company, Ltd. and Nintendo of America Inc. in further support of their cross-appeal. In its combined answering/reply brief, Universal recognizes that Nintendo's cross-appeal is grounded on the same extensive factual record on which Judge Sweet entered his findings of bad faith against Universal. Univ. Reply Br. at 29-30. Cutting through all of Universal's sound and fury and its wild mischaracterizations of both Judge Sweet's opinion and Nintendo's position, Nintendo established that Universal claimed rights it knew it did not have; set out to misappropriate Donkey Kong and wantonly and willfully disregarded the rights of Nintendo in the process; and finally produced witnesses at trial to testify untruthfully in an

attempt to escape the consequences of its misconduct. Universal is simply unable to answer the conclusive factual record of its bad faith, much less establish that Judge Sweet's factual findings on this score were clearly erroneous.

This reply brief is confined to the narrow legal issues presented by Nintendo's cross-appeal. Of course, Universal is correct that these legal issues arise in the factual context of its bad faith conduct. Judge Sweet properly found that Universal had tortiously interfered with Nintendo's licensees and had sponsored a deliberate copyright infringement of Nintendo's Donkey Kong product. He properly assessed damages and awarded attorney's fees as, in the alternative, Rule 11 sanctions, a fee award under the Lanham Act and punitive damages. He also properly awarded Nintendo its fees incurred in establishing Universal's willful copyright violation. Judge Sweet's only error, raised by Nintendo's cross-appeal, was in concluding that there was no further remedy available to the court to deprive Universal of an amount that far outstripped the total damages and sanctions awarded — the \$4.76 million in Donkey Kong royalties wrongfully received by Universal from its interference with Nintendo's Coleco, Atari and Ruby-Spears licenses. The ironic result is that despite the fact that Universal lost on all its claims, was found liable for tortious interference, guilty of willful copyright infringement and was assessed damages, punitive damages and attorney fees, it left the district court with its "litigation profit center" intact and over \$4.76 million the richer in Donkey Kong royalties.

Universal neither developed nor promoted Donkey Kong. It did not police the quality of the products sold by its licensees but explicitly relied on Nintendo to do so. A1554-56, 1603-04; see also A2221-2225, Admissions 34, 35, 40, 41, 48, 49. It did not lend its corporate name to the products. A1603, 2222-2226, Admissions 36, 37, 45, 46, 50, 51. It spent no money and expended no labor to develop or secure the sale of Donkey Kong products. A1554-56, 1613. Universal simply carved out an undeserved share of Nintendo's Donkey Kong business for itself. To leave this share in Universal's unclean hands would indeed be an unjust windfall and would reward it for its bad faith conduct.

As fully set out in Nintendo's main brief, Judge Sweet was mistaken in his belief that he was powerless as a matter of law to force Universal to disgorge royalties earned not from its own labor, but from its false claim of right to Donkey Kong which resulted in its licenses to Coleco, Atari and Ruby-Spears. A just and equitable result should have been achieved below either by finding Universal unjustly enriched or by finding it liable for tortious interference with these three licensees just as it was found liable for tortious interference with other Nintendo licensees. Nothing in the law requires that Universal be left with the fruits of its misconduct. Despite Universal's whining about the self-inflicted "serious reputational injury" resulting from Judge Sweet's findings, the actual result below was to leave Universal unjustly enriched.

ARGUMENT

POINT I.

UNIVERSAL MUST BE MADE TO DISGORGE ITS UNJUST ENRICHMENT

1. *Universal's Donkey Kong Royalties Are In Equity The Property of Nintendo.*

The Coleco, Atari and Ruby-Spears products, which were licensed by Universal, were Donkey Kong products. The royalties paid under these licenses were generated from the sale of Donkey Kong and not King Kong. In the prior appeal filed by Universal in this case, this Court affirmed Judge Sweet's finding that Donkey Kong and King Kong are utterly distinct as a matter of law. The evidence established, and Judge Sweet found, that Universal had itself concluded that it had no rights in King Kong to license before it secured agreements with Coleco, Atari and Ruby-Spears for their Donkey Kong products. 615 F. Supp. at 845-46. Any argument that Universal should now be allowed to retain Donkey Kong royalties because these royalties resulted from the licensing of some unidentifiable right Universal claimed to have in King Kong is false in logic and on the facts. Judge Sweet erred in his inconsistent finding that although Universal had itself concluded that it had nothing to license, the Coleco, Atari and Ruby-Spears licenses were nevertheless for some undefined aspect of King Kong. 615 F. Supp. at 856.

Universal does not even attempt to explain its explicit statements to Nintendo's licensees that it was offering Donkey Kong licenses: "others who are using the Donkey Kong name to sell their products have obtained from Universal an appropriate license authorizing them to use this variation of the King Kong trademark." A1832. It also has no explanation for its direct statement to Nintendo's licensee, Ralston Purina, that after this litigation it would own Donkey Kong (A2463) or its admission to Ralston Purina that nobody was interested in King Kong and the only subject of its new licensing activity was Donkey Kong (A2464).

Universal's response to Nintendo's unjust enrichment claim is ultimately limited to the argument that its enrichment was not at the expense of Nintendo, and Nintendo is therefore not a proper plaintiff. *See Reprosystem, B.V. v. SCM Corp.*, 727 F.2d 257 (2d Cir.), *cert. denied*, 105 S. Ct. 110 (1984) (cited by Universal at page 28 of its reply). On the facts of this case, however, Nintendo is the proper plaintiff.¹ Nintendo suffered an involuntary appropriation of one of its property rights — *i.e.* the right to be the exclusive licensor of Donkey Kong — and Universal's enrichment can in no sense be deemed the legitimate fruit of its own labors. *See Id.*

In his classic definition of a property interest, Justice Brandeis observed: "an essential element of individual property is the legal right to exclude others from enjoying it." *International News Service v. Associated Press*, 248 U.S. 215, 250 (1918) (Brandeis, J., dissenting). An obvious incident of ownership in an intellectual property such as the Donkey Kong trademark is the exclusive right to license or sell that property. *See generally Rohauer v. Killiam Shows, Inc.*, 551 F.2d 484 (2d Cir.), *cert. denied*, 431 U.S. 949 (1977), *citing, Fox Film Corp. v. Doyal*, 286 U.S. 123, 137 (1932); *George Simon, Inc. v. Spatz*, 492 F. Supp. 836 (W.D. Wis. 1980); *Inge v. Twentieth*

1. Judge Sweet explicitly found that Coleco, Atari and Ruby-Spears entered into their Donkey Kong royalty agreements with Universal in part to further other business interests with Universal. 615 F. Supp. at 841, 849-52. Nintendo alone took up the burden of disputing Universal's false claims. It is the only party in relation to whom it can be said that Universal's enrichment is unjust.

Century-Fox Film Corp., 143 F. Supp. 294, 298 (S.D.N.Y. 1956); 1 J.T. McCarthy *Trademark and Unfair Competition* § 2:6 (2d ed. 1984).

Since Universal has purported to license Nintendo's property, it has usurped Nintendo's status as the exclusive owner and licensor of Donkey Kong and has derived royalties which only Nintendo is entitled to collect. Moreover, in the classic terms of unjust enrichment, Universal has "reaped where it has not sown" (*International News Service v. Associated Press*, 248 U.S. 215, 239 (1918)) by collecting over \$4.76 million in licensing royalties from the sale of Nintendo's licensed products which it had no part in creating, promoting or selling.

The right to a remedy under the circumstances of Universal's unjust enrichment was long ago recognized in the classic form of action of *indebitatus assumpsit*:

From the days of Lord Mansfield's decision in *Moses v. Macferlan*, 2 Burr. 1065, decided in 1760, the common-law courts have recognized the right to sue in the equitable action of *indebitatus assumpsit* . . . if "the defendant upon the circumstances of the case is obliged by the ties of natural justice and equity to refund the money."

Second Nat. Bank of Toledo v. M. Samuel & Sons, Inc., 12 F.2d 963, 967 (2d Cir.), cert. denied, 273 U.S. 720 (1926). The origins of an action of *indebitatus assumpsit* lie in a line of decisions predating *Moses v. Macferlan* and exemplified by *Bonnel v. Foulke*, 2 Sid. 4, 82 Eng. Rep. 1224 (1657) where the remedy of restitution was recognized to permit the recovery of rents paid by a tenant to "one who pretends title." While this earlier line of cases only provided a remedy as between a payor and payee, the doctrine was expanded in *Arris v. Stukely*, 2 Mod. 260, 86 Eng. Rep. 1060 (Ex. 1677) to allow an office holder to recover fees that a defendant had collected from a third party while usurping the office to which the plaintiff was entitled. See Friedmann, *Restitution of Benefits Obtained Through the Appropriation of Property or the Commission of a Wrong*, 80 Colum. L. Rev. 504, 505 (1980).

In the United States, the equitable action of *indebitatus assumpsit* has evolved into the familiar action for "unjust

enrichment" where a person who obtains a benefit by the appropriation of a property interest of another is held liable for any benefit attributable to the appropriation whether the benefit was extracted from the plaintiff himself, or from a third party. The remedy is commonly referred to as one in "quasi contract" which is "not a contract or an agreement at all, but an obligation imposed by law to avoid unjust enrichment." *Werlin v. Readers Digest Ass'n., Inc.*, 528 F. Supp. 451, 465 (S.D.N.Y. 1981). See, e.g., *Matarese v. Moore-McCormack Lines, Inc.*, 158 F.2d 631 (2d Cir. 1946); *Bradkin v. Leverton*, 26 N.Y.2d 192, 196, 309 N.Y.S.2d 192, 195 (1970). More simply stated, a remedy for unjust enrichment is available:

[W]hen and because the acts of the parties or others have placed in the possession of one person money, or its equivalent, under such circumstances that in equity and good conscience he ought not to retain it, and which *ex aequo et bono* belongs to another.

Miller v. Schloss, 218 N.Y. 400, 407 (1916). See also *Friar v. Vanguard Holding Corp.*, 78 A.D.2d 83, 87-88, 434 N.Y.S.2d 698, 701-02 (2d Dep't 1980); *Eightway Corp. v. Dime Savings Bank*, 94 Misc. 2d 274, 280-81, 404 N.Y.S.2d 302, 305 (Civ. Ct. Queens Co. 1978), *aff'd*, 99 Misc. 2d 989, 420 N.Y.S.2d 836 (Sup. Ct. Queens Co. 1979).

It is no answer to Nintendo's claim against Universal for unjust enrichment that absent Universal's extraction of royalties from Coleco, Atari and Ruby-Spears, Nintendo had no specific contractual right to receive these royalties. Nintendo had a broader right: as the owner of Donkey Kong, it was entitled to all monies paid for licenses of the property and to exclude all others from licensing its property. Therefore, since money has been paid for a license of the property, it is for Nintendo's account.

The point is not whether a definite something was taken away from plaintiff and added to the treasury of the defendant. The point is whether defendant unjustly enriched itself by doing a wrong to plaintiff in such manner and in such circumstances that in equity and good conscience

defendant should not be permitted to retain that by which it has been enriched.

Federal Sugar Refining Co. v. United States Sugar Equalization Board, Inc., 268 F. 575, 582 (2d Cir. 1920). See also *Saunders v. Kline*, 55 A.D.2d 887, 888, 391 N.Y.S.2d 1, 2 (1st Dep't 1977), modified on other grounds, 53 N.Y.2d 658, 438 N.Y.S.2d 993 (1981) ("not a necessary element of a cause of action for unjust enrichment that plaintiff suffered a loss corresponding to the gain received by the defendant"). As stated by Professor Palmer:

Most of the cases . . . involved payment of money by a third person to the defendant, with restitution taking the form of recovery of the same amount by the plaintiff. The case for such relief is clearest when the plaintiff has a [preexisting] right to such payment, so that the very payment in question should have been made to him Recovery in quasi contract is not limited, however, to situations in which the plaintiff had a right to the very payment made. It is enough if the defendant is unjustly enriched and the amount he received was pursuant to a right held by the plaintiff.

G. Palmer, *IV Law of Restitution* § 21.5 (1978). The amounts paid to Universal were derived from the production and sale of Donkey Kong products. No one other than Nintendo had the right to license the production and sale of Donkey Kong products.²

2. Enrichment rather than loss to the plaintiff necessarily is also the focus of cases dealing with the "right of publicity", a much more ephemeral property interest than Nintendo's common-law and statutory rights in Donkey Kong. When the right of publicity is infringed, there are rarely any out-of-pocket losses, yet the Supreme Court has observed that the interest protected: is closely analogous to the goals of patent and copyright law, focusing on the right of the individual to reap the reward of his endeavors and have little to do with protecting feeling or reputation.

* * *

The doctrine of unjust enrichment was recently considered by this Court in *Reprosystem, B.V. v. SCM Corp.*, 522 F. Supp. 1257 (S.D.N.Y. 1981), *aff'd in part and rev'd in part*, 727 F.2d 257 (2d Cir. 1984) ("SCM"). In *SCM*, this Court acknowledged "the equitable principle that a person shall not be allowed to enrich himself at the expense of another" and went on to state the test for such relief:

a plaintiff seeking an equitable recovery based on unjust enrichment must first show that a benefit was conferred upon the defendant, and then show that as between the two parties enrichment of the defendant was unjust.

727 F.2d at 263.

In *SCM*, this Court reversed the award to the plaintiffs because it found that, as between the parties, the plaintiffs had not bestowed any benefits on the defendant and the defendant had not appropriated any right of the plaintiffs but had derived a benefit by his own labors. This Court concluded "plaintiffs have not shown that there is anything unjust about SCM's retaining the profits from SCM's business run by SCM's management at SCM's expense." 727 F.2d at 264.

In contrast to the equitable situation in *SCM* and the other cases cited by Universal at page 28 of its reply, Universal is here retaining profits from Nintendo's business run by Nintendo and its licensees at no expense to Universal. Universal's receipt of over \$4.76 million in Donkey Kong royalties was not the fruit of its own labors as was the defendant's in *SCM*. Universal has simply carved out a piece of Nintendo's business for itself which in equity must be turned over to Nintendo. Universal was found to have been in bad faith by

[The rationale is thus] "one of preventing unjust enrichment by the theft of good will. No social purpose is served by having the defendant get free some aspect of the plaintiff that would have market value and for which he would not normally pay."

Zachini v. Scripps-Howard Broadcasting Co., 433 U.S. 562, 573, 576 (1977), quoting, Kalven, *Privacy in Tort Law - Were Warren and Brandeis Wrong?*, 31 Law & Contemp. Prob. 326, 331 (1966).

Judge Sweet. Judge Sweet was only wrong in finding that there was no remedy in these circumstances to transfer the royalties unjustly reaped by Universal to the rightful owner of Donkey Kong.

2. *Nintendo's Unjust Enrichment Claim Is Not Preempted By Section 301 Of The Copyright Act.*

Universal's one-paragraph response on the preemption issue fails to address Nintendo's fundamental point. There was no unauthorized reproduction or distribution of Nintendo's copyrighted work by Universal or its licensees — Coleco, Atari and Ruby-Spears — which could have provided the basis for arguing that one of the exclusive rights of a copyright owner had been infringed. The reproduction and distribution of these Donkey Kong products was fully authorized by Nintendo, and Universal's extraction of additional royalties from these activities does not alter their authorized nature.

In short, Universal's conduct, though certainly wrongful under state law, was not an appropriation of one of the intangible rights granted to a copyright owner under 17 U.S.C. § 106, such as the right to reproduce or distribute. It was simply an appropriation of money, the propriety of which is to be tested under state law. See *Harper & Row, Publishers, Inc. v. National Enterprises*, 723 F.2d 195, 200 (2d Cir. 1983), *rev'd on other grounds*, 105 S. Ct. 2218 (1985) ("when a state law violation is predicated upon an act incorporating elements beyond mere reproduction or the like, the rights are not equivalent [to those protected by copyright] and preemption will not occur").³

3. The cases cited by Universal demonstrate that Nintendo's unjust enrichment claim is fundamentally different from claims which have been held preempted by section 301. In *Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F. Supp. 1523 (S.D.N.Y. 1985), the plaintiff brought an action based on the allegation that the defendant had copied her snowflake design. Because the design's copyright had lapsed into the public domain, no copyright action could have been or was pled for the unauthorized copying. Instead, common law claims for conversion and misappropriation were asserted. Because unauthorized copying was at the heart of these common-law claims, the court easily granted summary judgment on preemption grounds. *Id.* at 1535. Similarly, unauthorized copying was at the heart of the other two preemption cases cited by Universal. *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 723

Universal has been unjustly enriched without expending even the effort required to infringe on Nintendo's copyright. Under such circumstances, the common law should be given full effect to force Universal to disgorge its unjust enrichment. The district court's holding of preemption constituted a clear error of law.

POINT II.

UNIVERSAL TORTIOUSLY INTERFERED WITH NINTENDO'S LICENSES WITH COLECO, ATARI AND RUBY-SPEARS

1. *The Coleco, Atari and Ruby-Spears Licenses With Universal Constituted Material Breaches Of Their Licenses With Nintendo And Substantially Impaired The Value Of The Licenses To Nintendo.*

Nintendo does not contend, as suggested by Universal, that its licensees were prohibited by their agreements with Nintendo from settling claims of infringement with Universal. However, Nintendo's licensees were prohibited by explicit terms of their licenses from settling infringement claims in a way which would call into question Nintendo's exclusive rights in its Donkey Kong property. The entry into competing license agreements with Universal by way of settlement implicitly recognized multiple owners with the right to license Donkey Kong, and this inevitably called Nintendo's exclusive rights into severe question.⁴

F.2d 195, 201 (2d Cir. 1983), *rev'd on other grounds*, 105 S. Ct. 2218 (1985) ("If unauthorized publication is the gravamen of [plaintiffs' conversion claim], then it is clear that the right they seek to protect is coextensive with an exclusive right already safeguarded by the Act — namely control over reproduction and derivative use of copyrighted material. As such the claim is necessarily preempted."); *Durham Industries Inc. v. Tomy Corp.*, 630 F.2d 905, 919 (2d Cir. 1980) ("To the extent that Tomy's unfair competition claim seeks protection against Durham's copying, it is a claim based on a right equivalent to exclusive rights within the . . . scope of copyright. As such, it is defeated by section 301(a).") The final two cases cited by Universal, *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 435, n.17 (1984) and *Peter Starr Production Co. v. Twin Continental Films, Inc.*, 783 F.2d 1440, 1442-43 (9th Cir. 1986) merely set forth the law of contributory copyright infringement and lend no support to Universal's preemption argument.

4. In a semantic game, Universal strove in the court below to charac-

As set forth in Nintendo's Opening Brief, this was a serious breach of an important term of Nintendo's agreements with Coleco, Atari and Ruby-Spears which threatened the vitality of Donkey Kong as a trademark designating a sole source of origin. Universal cannot write this term out of Nintendo's license agreements simply by arguing that there was no breach because Nintendo's licensees had the obvious right to settle with Universal. The question is not the right to settle, but the form of the settlement which, in this case, was clearly contrary to the terms of Nintendo's agreements with its licensees.

Wholly apart from the question of whether Universal caused a "material breach," it is clear that tortious interference can be established in New York even in the absence of a breach where the interference substantially impairs the benefits of the contract to the aggrieved party. See the cases cited at pages 58-59 of Nintendo's Opening Brief. Universal attempts to escape the clear holding of these cases by a citation to *Nordic Bank PLC v. The Trend Group, Ltd.*, 619 F. Supp. 542 (S.D.N.Y. 1985). As pointed out in Nintendo's Opening Brief, the district court in *Nordic Bank* was under the incorrect impression that there was only one case which espoused the substantial

terize its agreements with Nintendo's licensees as "covenants not to sue" as distinct from licenses, as though the fixing of labels could change the substantive effect of these agreements. Universal continues its semantics on this appeal by incorrectly stating that the district court "found" that Universal's agreements with Coleco, Atari and Ruby-Spears were covenants not to sue. Univ. Reply Br. at 26, n. There is no substantive difference between what Universal calls a "covenant not to sue" and a license because, as the district court actually found, "[w]hatever Universal chooses to call these agreements, they purport to authorize the use of a Universal mark." 578 F. Supp. at 929. Permission to use a property in exchange for royalties is the hallmark of a license. When it approached Nintendo's licensees for royalty agreements for permission to sell Donkey Kong products, Universal said it was offering a license. A471-76, 528-31, 1823-26, 1828-32, 1969-72. Indeed, until Nintendo moved for summary judgment and pointed out that Universal's licensing of Donkey Kong was fatal to its King Kong claims against Nintendo (see 578 F. Supp. at 929), Universal consistently referred to its agreements with Nintendo's licensees as licenses. See A634-35, 1832, 1988 Response No. 7, 1994 Response No. 7. It makes no difference how Universal now chooses to characterize these agreements. What is important, is that Universal extracted these agreements by asserting a claim of right in Donkey Kong and, as a result of these agreements, seriously damaged Nintendo's right to hold itself out as the exclusive owner of Donkey Kong.

impairment rule, and incorrectly concluded that the "wealth of recent authority [is] to the contrary." 619 F. Supp. at 561. In fact, the rule has a solid foundation in New York case law and has been consistently cited by courts in the Second Circuit. See Nintendo Opening Brief at 59-60. Thus, contrary to the aberrant decision in *Nordic Bank*, the wealth of recent authority allows a recovery where there is a substantial impairment of contract benefits.

The undisputed evidence at trial was that Universal's competing ownership claims and surcharge on Donkey Kong products resulted in substantial damage to Nintendo's licensing program and seriously impaired the value of its flagship licenses with Coleco, Atari and Ruby-Spears as the means for establishing Donkey Kong in the marketplace. A2450-51. The New York Court of Appeals has recognized that a recovery of consequential damages, such as the effects of Universal's competing license agreements on Nintendo's overall licensing program, is available in an action for tortious interference. *Guard-Life Corp. v. S. Parker Hardware Manufacturing Co.*, 50 N.Y.2d 183, 197 n.6, 428 N.Y.S.2d 628, 636 n.6 (1980).

The district court did not reach the question of the appropriate measure of such damages in this case because it had mistakenly concluded that there had been no material breach by Coleco, Atari or Ruby-Spears and that such a breach was required under New York law. Nintendo presented authority to the court below to support a damage recovery measured by the \$4.76 million in Donkey Kong royalties collected by Universal. See Nintendo Opening Brief at page 57 n.25. An award of these royalties as tort damages under Nintendo's tortious interference claim was sought as an alternative to an award of these same royalties under its unjust enrichment claim. Some courts have awarded a tort recovery of profits which a defendant received as a result of his tortious inference by explicitly referring to the theory of unjust enrichment. See, e.g., *National Merchandising Corp. v. Leyden*, 370 Mass. 425, 348 N.E.2d 771 (1976). In *Leyden*, the Supreme Judicial Court of Massachusetts upheld an award equal to the defendant's profits, stating:

If alternatively, the award is viewed as a recovery to Namco by an amount representing CSI's

"unjust enrichment," we think it is likewise well merited. An accounting of profits — an approximation of the defendant's "unjust enrichment" . . . has been a well understood feature of actions for "business torts" such as unfair competition

While the analogy to unfair competition and cognate torts is convenient, it is not necessary, for there is authority both in the case law and scholarly commentary for the direct proposition that an unjust enrichment measure is appropriate for willful interference with contractual relations Nor should a defendant be heard to say that the unjust enrichment remedy is unfairly "punitive" because the plaintiff may recover more than its exact loss, when use of a tort measure might allow the defendant to retain some part of his ill gotten gains. Here as in other contexts, a plaintiff in proper cases may be permitted alternative routes of recovery.

Id. at 431-33, 348 N.E.2d at 775-76. See also *Second National Bank v. M. Samuel & Sons, Inc.*, 12 F.2d 963, 968 (2d Cir.), cert. denied, 273 U.S. 720 (1926); *Federal Sugar Refining Co. v. United States Sugar Equalization Board*, 268 F. 575, 582 (S.D.N.Y. 1920); D. Dobbs, *Remedies* §§ 6.1, 6.4 at 432-33, 465 (1973). The issue of the appropriate measure of damages in this case should be remanded to the district court for its consideration.

2. *Nintendo Did Not Waive Its Right To Recover Damages For Tortious Interference.*

The district court held that Nintendo had waived its right to recover against Coleco, Atari and Ruby-Spears by failing to sue them for breach of contract or put them on notice of the breach and by continuing to accept royalty payments from these licensees. The district court then concluded that Universal, who was not a party to the contract, was also entitled to argue the defense of waiver for its tortious interference. 615 F. Supp. at 861.

Universal does not now argue that Nintendo's failure to sue its licensees for breach of contract constituted a waiver of its right to recover from Universal for tortious interference. As Nintendo demonstrated in its Opening Brief:

The fact that the plaintiff may have a cause of action against the person who has broken his contract does not prevent recovery against the defendant who has induced or otherwise caused the breach, or reduce the damages recoverable from him. The defendant and the contract breaker are both wrongdoers . . . , and each is liable for the entire loss that he has caused.

Restatement (Second) of Torts § 774A, Comment e. *See also Phillips & Benjamin Co. v. Ratner*, 206 F.2d 372, 376 (2d Cir. 1953) ("no need for defendants to explain why they did not proceed directly against Reverie . . . since their contract claim against Reverie does not prevent them from having an additional claim in tort against plaintiff") and cases cited in Nintendo's Opening Brief at 58.

Rather, Universal's answering brief focuses on the continued acceptance of royalties by Nintendo and argues that this receipt of royalties somehow constituted a waiver by Nintendo. Universal fails to recognize that the damages available for breach of contract and for tortious interference are separate and distinct. Plaintiffs suing for tortious interference are not limited to contract remedies which may or may not be available and "the elements of damages, including consequential damages, would be those recognized under the more liberal rules applicable to tort actions." *Guard-Life Corp. v. S. Parker Hardware Manufacturing Corp.*, 50 N.Y.2d 183, 197, n.6, 428 N.Y.S.2d 628, 636, n.6 (1980). *See also* Restatement (Second) of Torts § 774A.⁵ Thus, beyond whether Nintendo has a cause of action

5. Universal's argument is also premised on the false proposition that any defense of waiver, which might be available to the licensees if sued by Nintendo for breach of contract, is also available to the defendant in a tortious interference action who is not a party to the contract. However, the New York courts have held that similar contract defenses such as the statute of frauds are personal to the contracting parties and cannot be raised as defenses by third parties. *See, e.g., Felicie, Inc. v. Leibovitz*, 67 A.D.2d 656, 657, 412 N.Y.S.2d 625, 627 (1st Dep't 1979).

against Coleco, Atari and Ruby-Spears for contract damages, it has a separate right for tort damages caused by Universal, which includes consequential damages such as the injury caused to Nintendo's licensing program by the imposition of competing licenses on its most important licensees.

CONCLUSION

Judge Sweet, on the basis of an extensive factual record, found that Universal had commenced this litigation in bad faith and claimed rights which it knew it did not own in a successful effort to capitalize on Nintendo's Donkey Kong product. As part of this scheme, it authorized a deliberate copyright infringement. Judge Sweet gave Nintendo substantial relief, but, because of certain erroneous legal conclusions, he left Universal unjustly enriched and Nintendo damaged with respect to its licenses with Coleco, Atari and Ruby-Spears. The district court's judgment should be affirmed in all respects, except for that part of the judgement which denied Nintendo a recovery for Universal's unjust enrichment and tortious interference with the Coleco, Atari and Ruby-Spears licenses, which should be reversed and remanded to the district court.

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Respectfully submitted,

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